

P-405, 421/CP-86-55 ORDER SETTING SURCHARGES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of the Petition of
Certain Subscribers in the Belle
Plaine Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

ISSUE DATE: June 8, 1992

DOCKET NO. P-405, 421/CP-86-55

In the Matter of the Petition of
Certain Subscribers in the
Cologne Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

DOCKET NO. P-407 et al/CI-90-441

In the Matter of the Petition of
Certain Subscribers in the New
Prague Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

DOCKET NO. P-520, 421/CP-86-537

In the Matter of the Petition of
Certain Subscribers in the
Waconia Exchange for Extended
Area Service to the
Minneapolis/St. Paul
Metropolitan Calling Area

DOCKET NO. P-430, 421/CP-86-5

ORDER SETTING SURCHARGES

PROCEDURAL HISTORY

On January 25, 1991, and February 1, 1991, the Commission issued Orders regarding the possible installation of extended area service (EAS) between the Minneapolis/St. Paul (metro) calling area and the exchanges of Belle Plaine, New Prague, Watertown, New Germany, Waconia, Mayer, Cologne and Norwood. Among other things, the Orders required affected telephone companies that incurred EAS polling costs to submit to the Commission and the Department of Public Service (the Department) a plan for the recovery of such costs in a one-month customer surcharge. The

telephone companies serving the eight petitioning exchanges and the metro calling area are United Telephone Company (United), Eckles Telephone Company (Eckles), Vista of Minnesota (Vista), GTE Minnesota (GTE), Scott-Rice Telephone Company (Scott-Rice) and US WEST Communications, Inc. (US WEST).

In April and May, 1991, subscribers in the eight petitioning exchanges voted on the issue of EAS to the metro calling area. The majority of subscribers in four exchanges, Belle Plaine, Cologne, Waconia and New Prague (the New Metro Exchanges), voted in favor of EAS to the metro calling area. Voters in Watertown, New Germany, Mayer and Norwood rejected the proposal.

On June 26, 1991, the Commission issued its ORDER CERTIFYING ELECTION RESULTS, DIRECTING INSTALLATION OF EXTENDED AREA SERVICE IN CERTAIN EXCHANGES, REQUIRING IMPLEMENTATION PLANS, AND CLOSING CERTAIN DOCKETS. In that Order the Commission directed the implementation of EAS for the New Metro Exchanges and dismissed from the docket the four exchanges which rejected the expanded EAS.

On November 19, 1991, the Commission issued its ORDER APPROVING STIMULATION METHODOLOGY, ESTABLISHING METRO CALLING AREA RATES, AND ESTABLISHING SETTLE UP PROCEDURE in the current dockets. In that Order the Commission approved a traffic stimulation study proposed by the affected telephone companies and modified by the Department. Under the approved plan, the telephone companies would measure traffic for the metro calling area to and from the New Metro Exchanges, and also to and from the four exchanges which rejected metro EAS (the Control Group). The costs of the Control Group study would be included in the non-recurring surcharges to customers in the New Metro Exchanges.

On March 16, 1992, United, which serves the Cologne and Waconia exchanges, submitted proposed one-time surcharges for recovery of non-recurring EAS costs. On the same date, Vista, which serves the Belle Plaine exchange, submitted its one-time cost recovery proposal. United revised its proposal on April 17, 1992.

Eckles submitted a proposed one-time cost recovery surcharge for its New Prague exchange on March 25, 1992.

The proposals submitted by United, Vista and Eckles included recovery of polling costs. They also included recovery of non-recurring costs of traffic stimulation studies for the Control Group and also for the New Metro Exchanges. United and Eckles also included US WEST's non-recurring labor costs for the process of converting its network from toll traffic to EAS. Although Vista did not request recovery of US WEST's charges in its filing, Vista's representative asked for their recovery at the May 19, 1992 Commission meeting.

On April 24, 1992, the Department filed its report and recommendation. The Department recommended that the Commission reject the surcharges proposed by Vista, United and Eckles for recovery in the Belle Plaine, Cologne, Waconia and New Prague exchanges and instead adopt the surcharges developed by the Department for those exchanges.

The matter came before the Commission for consideration on May 19, 1992.

FINDINGS AND CONCLUSIONS

Polling Costs

United, Eckles and Vista submitted polling costs to be recovered in a one-month surcharge from customers in their respective exchanges. Recovery of polling costs is specifically allowed in the aforementioned Commission Orders of January 25, 1991 and February 1, 1991. The Department did not object to the recovery of these charges or to the amounts submitted by the companies.

The Commission finds that recovery of these charges as submitted is appropriate.

Non-recurring Network Costs

United and Eckles included non-recurring cost estimates from US WEST for conversion of US WEST's network from toll to EAS. At the May 19, 1992 Commission meeting, Vista's representative stated that these costs had been inadvertently left out of Vista's recovery proposal. He requested that the Commission allow Vista recovery of the network conversion costs.

The Commission finds that recovery of these costs by United, Vista and Eckles is appropriate. US WEST has filed a long run incremental cost study to support its proposed network conversion costs. The Department has examined US WEST's cost filings and has recommended that US WEST be allowed to pass the costs to the local exchange companies for their inclusion in surcharge recovery.

The Commission approves recovery by United, Vista and Eckles of US WEST's non-recurring network conversion costs through one-month surcharges.

Traffic Stimulation Studies

United, Vista and Eckles sought cost recovery for traffic stimulation studies between the metro calling area and the Control Group and also between the metro calling area and the New Metro Exchanges.

In the above-cited November 19, 1991 Order, the Commission stated that costs of traffic studies to the Control Group could be recovered in the one-time surcharges assessed in the four exchanges which voted for metro EAS. The Commission reasoned that the Control Group study benefitted the four New Metro Exchanges by contributing to a more accurate cost study, which in turn would help in the development of proper rates. The Order was silent regarding the recovery of costs for the study of traffic stimulation to the New Metro Exchanges.

The Commission finds that cost recovery through the one-time surcharge should not be granted for studies of traffic stimulation to the New Metro Exchanges. These studies will assess the effects of EAS by comparing traffic levels before EAS installation with traffic levels after EAS is implemented. This type of study serves a broader purpose than the study of traffic to the Control Group. Studies of traffic to the New Metro Exchanges should benefit all ratepayers of the affected telephone companies by providing information on the long-term effects of EAS. Because a broad range of ratepayers will benefit from this information, the Commission will not assess the costs of gathering it solely to ratepayers in the exchanges which voted for metro EAS. The Commission will therefore exclude this cost from United's and Vista's surcharge proposals.

Eckles Telephone Company

The Department conducted an earnings investigation of Eckles under Docket No. P-520/M-90-1091. As a result of the investigation the Department recommended certain rate reductions, to which Eckles concurred in a settlement agreement. The parties agreed that Eckles' non-recurring surcharge for EAS costs (which included costs of traffic stimulation studies to the New Metro Exchanges) would be reduced by \$7.50. At the time, the issue of cost recovery for traffic studies to the New Metro Exchanges was not recognized or explored.

The Commission has now found that costs of traffic studies to the New Metro Exchanges should not be recovered in a one-time surcharge. Deducting these costs from Eckles' proposal and applying the \$7.50 settlement reduction result in a negative number (or credit) of \$4.77 per residential access line and \$2.13 per business access line. The Commission will adopt these credit levels for Eckles' New Prague exchange.

Cost Allocation

The Commission has approved three costs for recovery in the one-time surcharge: polling; traffic stimulation study costs from the Control Group to the metro calling area; US WEST's non-recurring network conversion costs. Polling costs and US WEST's costs are exchange specific and therefore can be directly assigned to the Belle Plaine, Cologne, New Prague and Waconia exchange subscribers.

Traffic stimulation study costs for the Control Group are not exchange specific and therefore must be allocated among the four exchanges which voted for inclusion in metro EAS. The Commission agrees with the Department that these costs should be assigned to Belle Plaine, Waconia, Cologne and New Prague based on the number of access lines in each exchange, compared to the total access lines of all four exchanges. The allocation should also take into account each company's business-to-residential rate ratios. These ratios are the best reflection of the value of EAS to business and residential subscribers.

ORDER

1. The non-recurring customer surcharge (or credit) rates for the Belle Plaine, Cologne, New Prague and Waconia exchanges are approved as shown in Attachment A. The surcharge (or credit) rates shall be implemented no later than 30 days after the implementation of extended area service to the above four exchanges, and shall be coordinated with the implementation of the new monthly extended area service charges and associated customer notices for these exchanges.
2. Within seven days of the date of this Order, the telephone companies serving the above four exchanges shall file with the Commission proposed surcharge (or credit) implementation schedules and related customer notices.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)

Attachment A

Extended Area Service Non-recurring Surcharges (Credit) Approved
by the Commission:

<u>Exchange</u>	<u>Residential Surcharge</u>	<u>Business Surcharge</u>
Belle Plaine	\$2.70	\$6.06
Cologne	3.54	7.09
New Prague	(4.77)	(2.13)
Waconia	2.85	5.70